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Syria Weighs Its Tactics as Pillars of Its Economy Continue to Crumble

By ANNE BARNARD

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Even as the Syrian government makes some gains against the rebels on the battlefield, it is taking a rout on an equally important front: the economy.

Two years of war have quintupled unemployment, reduced the Syrian currency to one-sixth of its prewar value, cost the public sector \$15 billion in losses and damage to public buildings, slashed personal savings, and shrunk the economy 35 percent, according to government and United Nations officials.

The pillars of Syria's economy have crumbled as the war has destroyed factories, disrupted agriculture, vaporized tourism and slashed oil revenues, with America and Europe imposing sanctions and rebels taking over oil fields.

Increasingly isolated in the face of a growing economic crisis that has reduced foreign currency reserves to about \$2 billion to \$5 billion from \$18 billion, a government that long prided itself on its low national debt and relative self-sufficiency has now been forced to rely on new credit lines from its main remaining allies — Iran, Russia and China — to buy food and fuel.

The government has a \$1 billion credit line with Iran, and borrows \$500 million a month to import oil products delivered on Russian ships, a government consultant, Mudar Barakat, said in a recent interview in Beirut. Some analysts believe the government will need even more aid from those countries to keep paying government workers and a growing roster of security forces.

Now, some officials hope to push through measures to tighten state control of the economy, rolling back some of the modest economic liberalization and support for private business that President Bashar al-Assad introduced early on, in a departure from his party's socialist roots.

“We're thinking of going back to the way it was in the 1980s, when the government was buying the main necessities of daily life,” Mr. Barakat said. “We, as a government, must cover the daily needs of the people, no matter how much the cost is, and keep the prices low.”

Syria's economic problems, in Mr. Barakat's view, are rooted in the loosening of state control by reformers favored early in Mr. Assad's tenure, who he said “vandalized” the economy “into this liberalized sort of chaos.”

A faction that includes Kadri Jamil, a Russian-educated, socialist former professor who was appointed deputy prime minister in charge of the economy in a shake-up last year, hopes Syria can weather the storm by raising wages, tightening price controls on subsidized goods like bread, cracking down on black-market currency traders and even ceasing government trade in dollars and euros.

The government, Mr. Barakat said, now signs new foreign trade deals only in the currencies of friendly countries to insulate itself from what it sees as an economic conspiracy orchestrated by its international enemies.

But such measures — met with ridicule and even defiance by some Syrian businesspeople — will provide at best short-term relief, economists say.

Even the free-flowing aid from Iran and other allies inspires little confidence among Syrians, said an economist in Damascus who asked not to be identified publicly as criticizing government policies, because it shows the government “has no means and depends on others to save it.”

A Damascus businessman derided the new policy of doing business in Iranian, Russian and Chinese currencies.

“These countries themselves do business in dollars and euros,” he said, adding: “Syria today is not Syria in the 1980s. It is easy to keep the door closed, but it is hard to close it after it has been open 13 years and people are used to breathing the fresh air.”

This month, the government banned food exports and announced a crackdown on black-market money traders. The value of the Syrian pound plunged to 330 to the dollar, down from 47 before the war.

On Wednesday, amid a flurry of panicked dealing, the Central Bank tried and failed to strong-arm traders into selling the Syrian pound at a higher, preset price. Dealers said Central Bank officials had offered to guarantee a tiny profit if they would sell the pound at a rate of 250.

The traders refused, several said. The government, they said, lacks the power to impose its will, in part because a few wealthy businessmen influence the dollar rate and corrupt officials profit from the trade.

The next day, currency exchange shops in the Damascus districts of Hariqa and Marjah were bustling. Customers clamored to change their savings into foreign currency — Saudi riyals, Emirati dirhams, anything — and traders shouted into phones, asking of the dollar, “How much is the green?”

Ammar, 35, a trader who gave only his first name for safety purposes, said the week’s events showed the government had no clearer plan for the economic crisis than it did for the political or military ones. “The government doesn’t understand the main problem or doesn’t want to understand,” he said. “Syrians no longer trust the Syrian pound.”

Last week’s currency crash deepened a steady decline that has helped send prices soaring even for basic foodstuffs and reduced most Syrians’ buying power to a fraction of prewar levels, making it hard even for once-well-off families to afford meat and fish.

The economic crisis threatens one of the government’s most crucial selling points. Syrians have long been envied in neighboring countries — even by the Lebanese, with far more political freedom — for the nation’s social safety net and affordable goods.

On paper, Syria still provides free education and medical care and heavily subsidized fuel and food staples. But scores of hospitals have been destroyed or damaged, medical supplies are scarce, and bread and diesel sell for many times the official price.

Yet in a polarized country, it is unclear if economic troubles will turn more citizens against the government, which blames foreign-backed terrorists and profiteering merchants and bakers, who, Mr. Barakat said, “are playing a very dirty role.”

“You could decide that you don’t want to support the regime,” said Jihad Yazigi, the editor of Syria Report, a Beirut-based economic journal. “But you can also blame the situation on other factors, like the sanctions and the opposition.”

And economists said the inflation was likely to harm the population more than it hampers the war effort. The fall of the pound means it costs the government less to pay salaries.

The government recently raised government salaries by 40 percent. But in real terms that does not cover the loss in buying power. And at the same time, the Damascus economist noted, the government raised the official price of diesel, adding to the inflationary cycle.

The government still manages to pay salaries across the country — even communicating by fax and messenger with rebel groups to arrange for them to rendezvous with trucks delivering cash, Mr. Barakat said. “The government employees come with the terrorists to pick them up,” he said.

The government has a harder time with subsidies, spending far more to make bread than it charges, Mr. Barakat said, while shops and bakeries take advantage of subsidized diesel and then sell bread at market prices. “Basically,” he said, “they are stealing the diesel.”

Residents and bakers in opposition areas say that the government favors loyalist areas with supplies and that they have to buy diesel on the black market.